

Foreign Direct Investment Outflows of Emerging Countries State Ownership Enterprises: Case of Malaysia

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Abstract

Emerging countries state ownership enterprises (SOE's) have become critical parts in the worldwide market and their prosperity is credited to internationalization strategies. In spite of entering the worldwide market at a later stage, these organizations have forcefully included at their underlying stage. Their speeding up in worldwide development has tested the State Ownership Enterprises (SOE's) internationalization as talked about in the ordinary expansion. This paper endeavours to reveal insight into the global development by developing state ownership enterprise (SOE's) and feature their disparities in the internationalization expansion. In light of an internationalization model created by past researchers, this paper subjectively examinations a few Malaysian State Ownership Enterprises (SOE's) that have extended utilizing different modes and systems. The paper focuses around the perspective on springboard worldwide development and the cycles that they experienced notwithstanding their youthful presence in the worldwide market. The discoveries show that the thought processes and drivers of State Ownership Enterprises (SOE's) in Malaysia contrast from SOE's in other bigger emerging countries like India and China.

Keywords: internationalisation; emerging markets; market expansion; outward foreign direct investment; OFDI; Malaysia.

Introduction

Current pattern of unfamiliar outward foreign direct investment (OFDI) have demonstrated a general abatement 35% in worldwide streams in the principal half of 2018 generally because of enormous repatriations of income by US parent organizations from their unfamiliar members due to burden change in United State (OECD, 2018). This lessening anyway is probably going to minimally affect venture exercises abroad by MNEs from arising nations with declined 6% coming to \$381 billion out of 2016. Unfamiliar direct venture surges from creating Asia were lessening 9% unexpectedly since 2003, diminishing to \$ 125 billion out of

2017 (UNCTAD, 2018). In the interim, Malaysia unfamiliar direct expansion outpourings increment from RM0.45 billion out of 1980 to RM 10.41 billion out of 1997. Increment massively top in 2011 to RM 72.43 billion however right now lessen to RM 23.03 billion of in 2017. The data shown from 2015 to 2017, OFDI became moderate with average of around 34 billion annually that is 2.7% of Gross Domestic Product (GDP) between 2015 and 2017. Therefore, research urged for more cautious measures on Malaysia OFDI (BNM, 2018).

FDI has become an essential piece of corporate growth strategies for State Ownership Enterprises (SOE's) from advanced countries as well as from emerging countries. Actually, firms from emerging countries currently are giving unique consideration to worldwide expansion as a wellspring of venture in investment and competitiveness. Regardless, experience collected by SOE's from emerging countries is far not exactly progressed compare to advanced countries. Notwithstanding such circumstance, these SOE's are endeavouring to contend in the worldwide market and quick to review their strategies to guarantee their worldwide interest. The speed of worldwide extension for these organizations is a lot more shorten than SOE's from advance countries, consequently the example of internationalization is marginally vary. Asian SOE's have put forth attempts by including in sending out and authorizing as starting stage during the time spent internationalization prior to moving into venture exercises abroad (UNCTAD,2018).

Notwithstanding, these organizations likewise confronted different risks and challenges in their exertion of turning out to be worldwide players. Their investigation was derived dependent on different emerging countries including the significant countries, for example, China, India, Brazil, Mexico and Russia. The forcefulness of emerging countries SOE's to partake in worldwide rivalry constrained them to springboard in their endeavours of expansion. Henceforth, this study endeavours to research further about the worldwide expansion of SOE's from Malaysia and look at their characteristic of expansion. This paper will investigate the characteristic of global expansion dependent on the structure created by Luo & Tung (2007). Malaysian SOE's that engage with the worldwide expansion have their own reasons and reasoning which may be or probably won't be similar from other emerging countries. The distinctions of Malaysian SOE's from other emerging countries in the worldwide market would make the uniqueness itself and might portray an alternate circumstance from other emerging countries.

Literature Review

Springboard Theory

Springboard theory or springboard perspectives is an international business theory that addresses to the remarkable motives, activities, challenges, facilitating forces and strategic behaviour of global organizations in creating and extending international business universally. Systematic efforts and strategies to exploit the advantages and decreasing the organization's shortcomings against institutional and market imperatives are planned as an extraordinary arrangement to encourage vigorous corporate growth and competitiveness long term strategies in initiating global enterprises market development Luo and Tung (2007, 2018).

This typology characterizes SOE's based on their business ownership and international diversification. There are two groups in the categories there are transnational agents and commissioned specialists. Interestingly, transnational agents are public enterprises in which government have solid control and intensely engaged with worldwide business expansion, while commission specialists are public firms that practice and spotlight on scarcely any chose unfamiliar market to use their competitiveness and satisfy government aspirations.

Luo and Tung (2007, 2018) propose that State Ownership Enterprises (SOE's) from emerging countries need to grow forcefully to ensure resources and abilities advancement, consequently in doing so they need to springboard in their global expansion. This is significant in upgrading their intensity abroad as well as to help a few inadequacies in the home countries. Luo & Tung (2007, 2018) also argue that 'springboarding' behavior or unique activities is more extensive than leapfrog, apart from that springboard also links SOE's international expansion with their home countries. Among the characteristics of springboarding include enlightening their competitive positions and late entrants disadvantages; competing with global rivals; improve trade barriers and local constraints; secure preferential treatment offered by emerging market governments; and exploit their competitive strength in other emerging or developing markets. Springboarding in their international expansion is the main strategy for them to compensate their competitive disadvantages compared to the SOE's from advanced countries.

Several mechanisms are used in springboarding embrace seeking market in advanced countries, looking for sophisticated know-how and technology through aggressive acquisition of foreign firms or their subunits. These mechanisms allowed SOE's emerging countries to leverage and exploit their ownership-specific competitive advantages in foreign countries (Dunning, 1981; Lecraw, 1983). Emerging Countries SOE's also are keen to secure technology and establish their brands through internationalization. The willingness foreign firms' to sell and share brands, know-how, and technology has contributed to these SOE's to achieve their objectives (Cuervo-Cazurra, 2012). Besides gaining the advantage for international expansion,

springboard also allows SOE's to compete with rivals in their home market. Springboard facilitates enterprises to avoid strict trade barriers such as special tariff penalties, quota restrictions, and anti-dumping penalties. As most of them mainly dependent on global export markets, this situation required them to leverage production capabilities and reducing deficiency in reaching foreign customers.

Springboard behavior also can be seen when SOE's attempt to overcomes their unique challenges to improve local institutional restrictions. Invalid institution functions such as poor enforcement of commercial laws and lack of legal protection for property rights become the pushing factor for them to expand abroad. Emerging countries SOE's also springboard in their international expansion to protect privileged treatment provided by emerging market governments. The offers by emerging market government are viewed as opportunities that could help them to secure their competitive positions against domestic vulnerability (Luo & Zhang, 2016). Exploiting competitive advantages in other emerging markets is also part of springboard behavior, expertise gained in mass production through OEM arrangements and cross national alliances has given them advantages, and furthermore they also can easily buy the technology and know-how needed. Low-cost position enabled them to take over the dominant positions by the advanced and NICs countries (Buckley, 2016).

Springboard Motives and Drivers

Motives for springboard international expansion can be categorized as asset-seeking and opportunity-seeking. Asset-seeking may include technology, R&D facilities, know-how expertise, human capital, customer based, brands, distribution channel, natural resources and managerial expertise. While opportunity seeking may embrace shaping niche opportunities in advanced markets that complement their strengths; advantage from preferential financial and non-financial treatment obtainable by home and host government; growing company size and reputation; escaping from institutional or market constraints at home; bypassing trade barriers into advanced markets; seizing opportunities in other developing countries to leverage their cost-effective manufacturing capabilities reason.

Springboard behavior of emerging countries SOE's are motivated by several forces such as home government support for going global; willingness of global players to share or sell strategic resources and offshore availability of standardized technology; corporate entrepreneurship and strong motivation to enter key foreign markets; increasing competitive pressure from global rivals; quick changes in technological and market landscapes and a heightened borderless world economy. Entrepreneurial leadership is part of important motivated force behind springboard activities for both state-owned and non-state-owned enterprises. The integrations between institutional legacies of emerging economies and dynamic capabilities of their corporate entrepreneurs are crucial for understanding their internationalization strategies (Child and Rodrigues, 2005). These SOE's that are proactive in

international markets are often led by corporate executives who have sharp vision and have adopted pragmatic measures to tap into foreign markets that provide resource-seeking or market-seeking opportunities (Andreff, 2002; Tsang, 2002). Inability to compete with advanced countries SOE's in terms of their technological capabilities, emerging countries enterprises expanded their scale and scope by investing or reinvest parent capital in new project. They have built new competences necessary in emerging markets, diversified product lines, extended value chain activities, and enormous localization and adaptations (Buckley, 2016).

The rapid change in technological and market has forced emerging countries SOE's to go into the global stage. The dynamic and turbulent environment such as technological changes, intensifying significance of knowledge, shortened product life cycle, remarkable changes in information, rapid technology diffusion and communication technologies have compelled them to quickly cope with the phenomenon. Even some advanced economy shares compatible strategic pursuits, obtaining critical assets from other advanced economies and even from emerging economies to bolster their home country capability portfolio, a pattern highlighted as knowledge-seeking OFDI (UNCTAD, 2017). Emerging SOE's will play a bigger role in shaping global norms and institutions that underpin the world economy.

Methodology

This study employed a qualitative design in which case study approach is a main method used. Cases were selected from several State Ownership Enterprises (SOE's) originated from Malaysia and are heavily engaged in international market to illustrate the springboard international expansion phenomenon. Data is collected mainly through secondary data as a practical data collection which include various sources such as documentation, archival records, interviews, direct observations, participant observations and physical artifacts (Yin, 2003). Physical artifacts used in this study also include newspapers, books, magazine, websites, memos, transcripts of conversations, and annual reports. The population are all Malaysian SOE's that have international expansion and investment abroad and listed in Kuala Lumpur Stock Exchange Markets (KLSE), four companies were selected out of 626 firms based on their international engagement from various sectors in Malaysia. These firms are Sime Darby Ltd, Petronas, UEM Builder Ltd and Telekom Malaysia (TM). Data analysis follow qualitative method of analysis where they were classified and filtered accordingly before they were grouped for common factors like motives, activities, and drivers.

Finding and Dissussion

In portraying the springboard international expansion of Malaysian State Ownership Enterprises (SOE's), four firms were breaking down dependent on their worldwide business exercises in the worldwide market. In view of the typology (Luo & Tung, 2007, 2018), it was discovered that Malaysian SOE's have the characteristics of transnational agent and commissioned specialist. The four SOE's were categorized and Figure 1 below summarizes the classification for them.

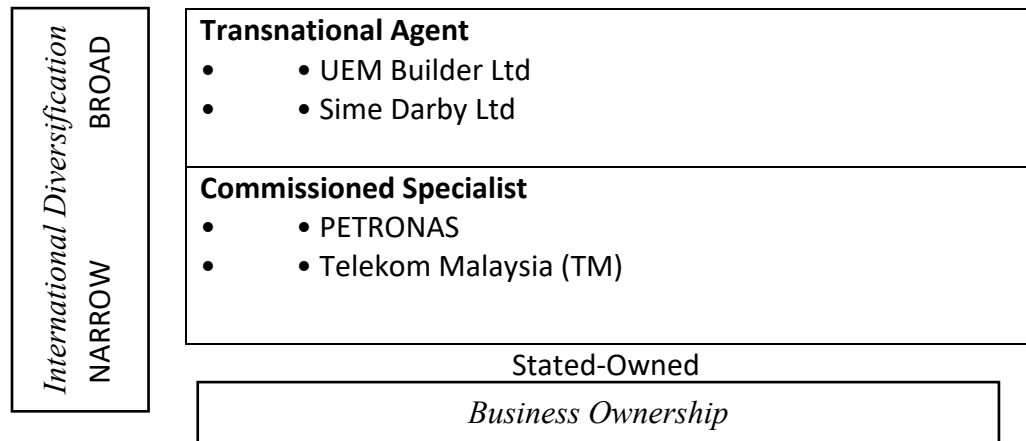


Figure 1: Typology of Malaysian State Ownership Enterprises (SOE's)

Transnational Agent - UEM Builder Ltd and Sime Darby Ltd are two Malaysian transnational agent in which both are public SOE's that have wide business development all around the world and under solid impact of local government. The ownership of the government in these companies cause them to be known as government linked corporation (GLCs). The powerful control of government in their investment choices making especially relating to the worldwide expansion are viewed as significant supporting the financial advancement in the country. UEM is the biggest development organization in Malaysia with 40 significant operating organizations under six core businesses; expressways, engineering and construction, environmental services, healthcare, property and information, communication and technology. Aggressive action through worldwide connections with foreign partner and different foreign project in India, Asian nations, Middle East, United Kingdom, Canada, New Zealand and Australia, has gone it to be a specialist of the country. Sime Darby Ltd is another transnational agent of Malaysia and the nation's most known conglomerate among local and foreign investors. It is probably the greatest companies in Southeast Asia with the core business being plantation including palm oil and the company original business, rubber; tire manufacturing, heavy equipment and motor vehicle distribution, property development, power generation, and engineering services. The market covers Hong Kong, Singapore, New Zealand, Australia, Thailand, Indonesia, Philippines, Brunei, Indonesia, Thailand, Vietnam, United Kingdom, Solomon Island, Papua New Guinea, and New Caledonia. It additionally has

operation on paint fabricating, refrigeration item assembling, travel and tourism services, hospitals and golf courses.

Commissioned Specialist - Petronas and Telekom Malaysia (TM) are commissioned specialist SOE's, they are government-owned companies that invest in few selected countries in various business sector worldwide to use their intensity while fulfilling the home government goals and aspirations. Petronas, the national petroleum company, has been granted an exclusive proprietorship and control by the government, the core business activities range from upstream exploration, development and production of oil and gas to downstream oil refining, promoting and dissemination of oil based good, trading, gas processing and liquefaction, gas distribution, marketing of liquefaction natural gas, gas transmission pipeline operation, gas transportation petrochemical manufacturing and marketing and engineering and technical services. It operates through 36 wholly-owned subsidiaries, 21 partly owned subsidiaries with majority holding and 20 associated companies with minority holding in different countries including Iran, Sudan, Algeria, Libya/Tunisia, Pakistan, China, Myanmar, Thailand, Cambodia, the Philippines, Indonesia, Brunei Darussalam, South Africa, Angola, Seychelles, Turkmenistan, Chad, Egypt, Gabon Cameroon and obviously Vietnam, it likewise has interests in Australia, India, Argentina and Switzerland. Petronas has built up a solid brand name particularly in Asia and Middleast countries. Telekom Malaysia (TM) is another specialist that focus on telecommunication business including establishing, maintaining, providing telecommunication and related services. As a government-owned company, it is closely monitored by the government through the ministry of Energy, Telecommunication and Posts. Its operations cover Pakistan, India, Thailand, Indonesia, Cambodia, Sri Lanka, Bangladesh, Malawi, and Republic of Guinea. As of late, TM is going through gigantic restructuring particularly in its foreign expansion strategies to stabilize its existence in the worldwide market. Table 2 summarizes the unique activities and unique challenges in these MNEs.

Table 2: Malaysian SOE's International Springboard: Unique Activities, Unique Challenges and Unique Drivers in SOE's

| Group | Company | Unique Activities or Behaviour | Unique Challenges | Unique Driver |
|---------------------|-----------------|---|---|--|
| Transnational Agent | UEM Builder Ltd | <ul style="list-style-type: none"> • Fulfilling government strategic plan • Increasing market growth • Grabbing opportunities in foreign counties • Utilizing preferential treatments by the home government | <ul style="list-style-type: none"> • Operation constraints • Market constraints | <ul style="list-style-type: none"> • Market seeking • Efficiency seeking • Asset seeking • Opportunity seeking |
| | Sime Darby Ltd | <ul style="list-style-type: none"> • Enhancing market share and growth • Improving manufacturing technologies • Improving cost competitiveness • Fulfilling the government strategic plan • Undertaking wholly-owned | <ul style="list-style-type: none"> • Delay and high environment cost (Bakon hydroelectric Project) • Asian Financial Crisis | <ul style="list-style-type: none"> • Natural resource seeking • Market seeking • Efficiency seeking • Asset seeking • Opportunity seeking |

| ventures | | Sime Bank |
|-------------------------|-----------------------|---|
| Commissioned Specialist | Petronas | Berhad (United Malayan Banking Corp) • China partner having financial problems • numerous competitor • social economic and political regulation • technology innovation • Natural resource seeking • Market seeking • Efficiency seeking • Asset seeking • Opportunity seeking |
| | Telekom Malaysia (TM) | • Falling fixed line unit • Higher competitive cellular segment • Lack of long term commitment in investment • Lack of focus in selecting market • Lack of experience and knowledge • Market seeking • Efficiency seeking • Opportunity seeking |

Motives for Malaysians MNEs International Expansion

A number of theories have been developed to explain the reasons for the global existence of emerging countries SOE's as mentioned by Dunning (1980,1993); Luo&Tung (2007) and other scholars. Motives for SOE's to invest abroad are commonly discussed within five major reasons which include natural resource-seeking, market-seeking, efficiency-seeking, strategic asset-seeking and opportunity-seeking. However, springboard international expansion emphasizes asset-seeking and opportunity-seeking are two core motives for emerging countries SOE's. Malaysian SOE's apparently have these two motives, but in the case of Petronas the motives go beyond that. Due to the scarcity of the natural resources in the country, this condition has forced the company invest in other potential countries Petronas, UEM and Sime Darby also sought for natural resources abroad as alternatives for their sustainability. Greenfield investments were common in these companies as control is an essence in managing such operations. Springboard argument that emerging countries MNEs focus on asset and opportunity seeking as motives of international expansion is not depicted

clearly in the Malaysian SOE's. Hence, for Malaysian MNEs seeking out for natural resources remain as main motives for their international expansion. Apart from that, Malaysia MNEs also were driven to invest abroad for efficiencies reasons. Figure 2 also summarizes the Drivers of Malaysian SOE's.

Conclusion

Malaysian SOE's internationally expanded as other SOE's from large emerging countries like China, India, Brazil, Mexico and Russia, however the springboarding of the expansion is rather limited. Malaysian SOE's failed to enjoy such as production scale which lower the costs through vertically integrated global production systems as enjoyed by China and India. Malaysian SOE's are yet struggling to minimize transaction costs for efficiencies as a source of competitive advantage. This is due to the size, resources, technological and financial capabilities that the country is lacking compared to these countries. Though the model of springboard international expansion fits well with Malaysian SOE's, there are certain criteria that remain to be seen in them but not in large emerging countries SOE's. The economies of scale and small domestic market did not give cost advantage and dominant position to these SOE's to utilize in global market. Lack of advanced technologies and know-how and strong government interventions slowed down the process of international expansion thus disable them to springboard. This perspective enables Malaysian SOE's to review their competitive positions relative to other SOE's from other emerging countries in the global market.

Future Research

Through the finding and discussion obtained, some limitations were identified that prompt to further future research. Several improvements can be done through analyzing the international expansion theories of different SOE's in Malaysia by increasing the population sample of SOE's. Additionally, exploration to other developing countries springboard perspective factors can also be carried especially in Asia. Besides, varieties of international business theories can be applied to strengthen the understanding on Malaysian SOE's activities, drivers, risks and challenges. Other than that, comparing several factors related to international expansion of SOE's between loads of countries from emerging markets will develop more understanding of overall studies. International expansion strategies in developed countries can also be benchmarked to making the studies more informative to other researchers.

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